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REPORT OF THE EXTERNAL AUDITOR, FINANCIAL PERFORMANCE REPORT AND PROGRAMME PERFORMANCE REPORT FOR THE BIENNIUM 1998-1999

Financial performance report for the biennium 1998-1999

Submitted by the Director General

Reports on the utilization of financial resources for the biennium 1998-1999 for the regular and operational budgets.

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Introduction

1. In its conclusion 1987/19, paragraph (j), the Programme and Budget Committee requested the Director-General to submit each year to the Industrial Development Board through the Committee a clear and detailed financial performance report itemizing the utilization of financial resources. The present document presents a comparison for the biennium 1998-1999 of the budget estimates in terms of appropriations and income with actual expenditures and income. The information is provided for both the regular and operational budgets.

I. REGULAR BUDGET PERFORMANCE REPORT

A. Budget estimates for the biennium

2. The budget estimates for the biennium 1998-1999 presented in document GC.7/21 and approved by the General Conference in decision GC.7/Dec.16 were adjusted to reflect programmatic and financial changes made to the major programme estimates during the biennium within the total approved net budget as assessed on Member States. These were presented in documents IDB.20/7-PBC.14/6 and GC.8/12, and approved by the General Conference in decision GC.8/Dec.12.

3. The budget estimates comprise:

(a) The budget for 1998-1999 as approved by the General Conference in decision GC.7/Dec.16. The approved budget consisted of appropriations for the biennium of \$145,898,600 and income estimates of \$16,357,900 (including cost reimbursement) on the basis of an exchange rate of US\$ 1 = ATS 12.90;

(b) Budgetary adjustments to major programmes and objects of expenditure were made within the total approved net budget as assessed on Member States. Since the responsibility for the management of Buildings Management Service (BMS) could not be transferred to another organization in the VIC with effect from 1 January 1999, the approved revised budget consisted of increased appropriations for the biennium of \$165,500,300 and increased income estimates of \$35,959,600 in accordance with decision GC.8/Dec.12. This, however, did not result in any additional assessment on Member States. The adjustments are listed below:

- (i) The required formation of a strong team to advise the Director-General and to oversee the introduction of new policies and procedures necessitating recruitment and redeployment of senior staff; maintaining

UNIDO's office in Geneva, supporting the Vienna Chapter of the Group of 77 and China, and increasing the allocation for staff training. The resources were made available by increasing the vacancy factor for Professional posts from 5 to 8.5 per cent, and posts were established at the appropriate level;

- (ii) The restoration of the established posts and gross budget for the cost of Buildings Management for 1999 offset by increased estimates for cost reimbursement income, thus not increasing the net budget comprising UNIDO's share for BMS;

- (iii) The establishment of the essential requirements programme for the upkeep of the buildings in the VIC, with a duration of 10 years starting in the 1998-1999 biennium. The financing was secured by redeployment of savings resulting from cost-cutting measures, including cutbacks in documentation and reduction in the duration of meetings to achieve savings in printing, interpretation, translation and other related services and reductions in operating costs.

4. The revised budget estimates by major programme resulting from the above changes are presented in table 1. Changes were made in the budgetary allocations by major object of expenditure and are presented in table 2. Revisions/adjustments to the dollar and schilling appropriations and income are shown in table 3.

5. The present document thus presents the financial performance report on the basis of the programme and budgets for 1998-1999 approved in General Conference decisions GC.7/Dec.16 and GC.8/Dec.12 and assessed on Member States.

6. In accordance with decision GC.7/Dec.16, appropriations and estimated income for the biennium are adjusted to take account of exchange rate variations experienced during the biennium. The application of the average exchange rate for the biennium of US\$ 1 = ATS 12.6335 to the revised appropriations and estimated income presented in table 4 resulted in a restatement of those items to \$168,453,500 and \$36,672,900, respectively.

B. Assessed contribution income for 1998-1999

7. The financial implementation of the approved programme and budgets is dependent on the actual level of cash resources available during the biennium. The source of financing of the regular budget is the assessed contributions of Member States. Assessed contributions for the biennium 1998-1999 paid to the Organization as

compared with the amounts assessed in accordance with General Conference decision GC.7/Dec.16 are as follows:

Millions of US dollars

Assessed contributions receivable	130.9 ¹
Assessed contributions received	<u>112.7</u>
Shortfall in collections	<u>18.2</u>
Percentage shortfall	13.9

C. Comparison of budget with actual expenditure and income for 1998-1999

8. A comparison of actual expenditure and income with the revised budget estimates for the biennium is presented below:

Millions of US dollars

	Revised budget estimates US\$ 1 = ATS 12.6335	Actuals 1998- 1999	Under- utilization	%
Expenditure	168.5	151.1	17.4	10.3
Income	36.7	30.2	6.5	17.6
Net	131.8	120.8	11.0	8.3

9. Comparisons of budget estimates with actual expenditure and income by major programme and major object of expenditure are presented in tables 4 and 5 respectively. Explanations of underutilization by major programme and major object of expenditure are provided in the following paragraphs.

D. Underutilization of the budget

10. The net underutilization of the budget of \$11.0 million (8.3 per cent) comprised an under-expenditure on appropriations of \$17.4 million (10.3 per cent) and a shortfall in income of \$6.5 million (17.6 per cent). The major factor contributing to underutilization was the lack of sufficient cash resources throughout the biennium to implement the budget due to the uncertain cash flow, a shortfall in the collection of arrears and the non-availability of additional funds (\$10 million) during the implementation of the staff separation programme. The difficult financial situation at the beginning of 1998 led to the introduction of emergency measures to restrict expenditures and restore cash balances to ensure a reasonable level of financial security resulting in the replenishment of the Working Capital Fund (\$6.6 million) for the first time since November 1995. The emergency measures consisted of delayed recruitment of staff and reduction in expenditure levels under consultants, travel, language and documentation services, printing, general operating expenses and other items.

E. Financial implementation by major programme

11. The underutilization of the budget in most of the major programmes was mainly due to the lack of sufficient cash resources, as described in paragraph 10 above. Other savings could be achieved due to UNIDO's initiative to reduce costs. The savings of \$0.4 million (6.5 per cent) achieved under major programme A (Policy-making Organs) mainly resulted from the reduced length and volume of documentation and its related costs under language and documentation services, including printing of documents. The savings of \$0.1 million (0.9 per cent) under major programme B (General Management) were mainly attributable to savings in general operating costs of the UNIDO offices in New York and Geneva and public information activities. The underutilization of \$4.5 million (10.9 per cent) in major programme C (Strengthening of Industrial Capacities) was mainly due to a large number of vacant posts and underexpenditure under consultants, IDDA supplementary activities, *ad hoc* expert group meetings, travel and language and documentation services. The level of underutilization reached in major programme D (Cleaner and Sustainable Industrial Development) amounts to \$3.0 million (20.7 per cent) and mainly resulted from a high vacancy rate, redeployment of technical cooperation funds to other programmes and underutilization of language and documentation services. The underutilization of \$2.0 million (9.8 per cent) in major programme E (Regional Programme Management) was also mainly due to a higher vacancy rate, underutilization of international travel of UNIDO Representatives, field operating costs and language and documentation services. The excess of expenditures over approved budget estimates under major programme F (Technical Cooperation Management) mainly resulted from redeployment of IDDA supplementary activity and Regular Programme of Technical Cooperation (RPTC) funds to this programme for administrative purposes only.

12. The underutilization of \$7.7 million (11.5 per cent) in major programme G (Administration) was mainly due to cost-saving measures in Buildings Management Service resulting in a higher staff vacancy rate and savings under general operating costs, supplies and materials, acquisition of furniture and equipment and the essential requirements programme.

13. Reductions in expenditure in major programme G (Administration) had a direct impact on cost reimbursement income, as described in paragraph 20 below. The reduced level of income under major programme E (Regional Programme Management) reflected the lower-than-anticipated financial contributions of Governments to the costs of UNIDO field offices.

¹ See document IDB.23/3-PBC.16/4, annex III (Notes to the financial statements), note 2(a).

F. Financial implementation by major object of expenditure

14. The underutilization of budgeted staff costs of \$1.5 million (1.6 per cent) comprises:

Millions of US dollars

Salaries	3.2
Common staff costs	(2.2)
Consultants	0.2
Ad hoc expert group meetings	0.1
Other	0.2
Net underutilization	1.5

15. The underutilization of budgeted salary costs was mainly due to the higher-than-budgeted vacancy factors for Professional and General Service posts and variations between actual and standard salary costs.

16. The following cost reduction measures were taken to reduce cash outflow and achieve expenditure reductions due to inadequate levels of cash resources:

(a) Restriction of external recruitment to posts with specialized expertise in priority substantive programmes or essential managerial functions;

(b) Lower utilization of consultant services and ad hoc expert group meeting funds;

(c) Restrictions on hiring of general temporary assistance staff and payment of overtime;

(d) Cutbacks in documentation, reducing translation and related services together with printing costs.

17. Underutilization of travel of \$0.8 million (36.2 per cent) resulted from a general curtailment of staff travel. The cutbacks for supplies and materials, replacement of furniture and equipment as well as the postponement of VIC maintenance work resulted in an underutilization of the budget for these objects of expenditure of \$3.2 million (10.6 per cent).

18. The underutilization of the Regular Programme of Technical Cooperation (RPTC) and IDDA supplementary activities was at the level of \$2.1 million or 15.1 per cent of the budget. This underutilization was mainly caused by cash shortages especially in the first year of the biennium. Though high priority was assigned to these activities in the second year, due to the requirement of having all such activities operationally completed by the second year of the biennium, the unutilized balance under this item could not be further minimized.

19. The underutilization of other expenses of \$9.5 million or 40.8 per cent was related to both Policy-making Organs and Joint and Common Services, in

particular those of conference services, including translation and interpretation.

C. Income

20. The deficit of income over the budget estimates comprises:

Millions of US dollars

	Budget	Actual	Surplus/ (deficit)	%
Cost reimbursement income	35.2	28.3	(6.9)	
Miscellaneous income	<u>1.5</u>	<u>1.9</u>	<u>0.4</u>	
Total	<u>36.7</u>	<u>30.2</u>	<u>(6.5)</u>	(17.6)

The deficit in cost reimbursement income of \$6.9 million is directly related to the underutilization of the budgeted gross expenditure for VIC operating costs and lower-than-anticipated contributions of governments to the running costs of local UNIDO field offices. Miscellaneous income exceeded budget estimates by \$0.4 million, as detailed in the following table:

Millions of US dollars

	Budget	Actual	Surplus/ (deficit)
Interest income on cash balances	1.4	1.6	0.2
Income from sale of publications	0.1	0.1	-
Prior year recoveries of expenditure	-	0.6	0.6
Exchange gains	-	(1.0)	(1.0)
Other	-	0.6	0.6
Total	<u>1.5</u>	<u>1.9</u>	<u>0.4</u>

II. OPERATIONAL BUDGET

21. The operational budget is funded mainly from support cost income earned on technical cooperation project delivery and from technical services provided by the Organization. Support costs to be financed during the biennium from operational budget income were presented in the programme and budget document (GC.7/21) and approved by the General Conference in decision GC.7/Dec.16.

22. The financial results for the biennium are as follows:

Millions of US dollars

	Budget (1)	Actual (2)	Balance (3)=(2-1)
Technical cooperation delivery	<u>227.8</u>	<u>175.3</u>	<u>(52.5)</u>
Income earned on delivery for technical services	27.6	20.7	(6.9)
Cost reimbursement from host Governments	0.6	0.2	(0.4)
Miscellaneous income	<u>0.4</u>	<u>0.9</u>	<u>0.5</u>
Total income	28.6	21.8	(6.8)
Expenditure	<u>28.5</u>	<u>24.4</u>	<u>(4.1)</u>
Surplus/(deficit)	<u>0.1</u>	<u>(2.6)</u>	<u>(2.7)</u>

23. A comparison of actual expenditure with the budget estimates, as contained in document GC.7/21, is presented in tables 6 and 7 by major programme and major object of expenditure, respectively.

24. As can be seen in the above table, although the shortfall in income was to a large extent offset by a reduction in expenditure, a deficit for the biennium was recorded in the operational budget. The reduction of the deficit was achieved by maintaining high vacancies in established posts and restricting non-staff resource allocations. The average vacancy factor for 1998-1999

for Professional posts was 25.3 per cent and for General Service posts 7.2 per cent. The deficit of \$2.6 million from the 1998-1999 biennium decreased the combined operating reserve and fund balances in the operational budget to \$1.6 million at 31 December 1999.

III. ACTION REQUIRED OF THE COMMITTEE

25. The Committee may wish to take note of the information provided in the present document.

Table 1

Revised budget estimates for 1998-1999 by major programme

(In thousands of US dollars at US\$ 1 = ATS 12.90)

Major programme	Approved budget 1998-1999 ^a (GC.7/21)			Adjustments ^b (GC.8/12)			Revised budget estimates 1998-1999		
	(a)			(b)			(c)=(a+b)		
	Gross (1)	Income (2)	Net (1-2) (3)	Gross (4)	Income (5)	Net (4-5) (6)	Gross (7)	Income (8)	Net (7-8) (9)
A Policy-making Organs	6,680.0	-	6,680.0	(594.4)	-	(594.4)	6,085.6	-	6,085.6
B General Management	10,474.0	-	10,474.0	981.2	-	981.2	11,455.2	-	11,455.2
C Strengthening of Industrial Capacities	42,017.5	-	42,017.5	(1,041.8)	-	(1,041.8)	40,975.7	-	40,975.7
D Cleaner and Sustainable Industrial Development	14,415.0	-	14,415.0	(243.3)	-	(243.3)	14,171.7	-	14,171.7
E Regional Programme Management	20,343.7	895.5	19,448.2	(129.0)	-	(129.0)	20,214.7	895.5	19,319.2
F Technical Cooperation Management	7,567.6	-	7,567.6	(145.7)	-	(145.7)	7,421.9	-	7,421.9
G Administration	44,400.8	13,954.1	30,446.7	20,774.7	19,601.7	1,173.0	65,175.5	33,555.8	31,619.7
Miscellaneous income	-	1,508.3	(1,508.3)	-	-	-	-	1,508.3	(1,508.3)
TOTAL	145,898.6	16,357.9	129,540.7	19,601.7	19,601.7	-	165,500.3	35,959.6	129,540.7

^a Approved in decision GC.7/Dec.16.

^b Reference PBC.14/6-IDB.20/7, approved in decision GC.8/Dec.12.

Table 2

Revised budget estimates for 1998-1999 by major object of expenditure

(In thousands of US dollars at US\$ 1 = ATS 12.90)

Major object of expenditure	Approved budget 1998-1999 ^a (GC.7/21)			Adjustments ^b (GC.8/12)			Revised budget estimates 1998-1999		
	(a)			(b)			(c)=(a+b)		
	Gross	Income	Net	Gross	Income	Net	Gross	Income	Net
	(1)	(2)	(1-2) (3)	(4)	(5)	(4-5) (6)	(7)	(8)	(7-8) (9)
100 Staff costs	86,436.9	4,726.9	81,710.0	5,875.5	4,634.7	1,240.8	92,312.4	9,361.6	82,950.8
200 Official travel	2,192.1	3.3	2,188.8	4.6	3.5	1.1	2,196.7	6.8	2,189.9
300 Contractual services	694.7	-	694.7	-	-	-	694.7	-	694.7
400 General operating costs	16,869.2	9,845.4	7,023.8	11,239.9	8,877.0	2,362.9	28,109.1	18,722.4	9,386.7
500 Supplies and materials	780.8	104.8	676.0	113.8	89.9	23.9	894.6	194.7	699.9
600 Acquisition of furniture and equipment	473.1	167.1	306.0	187.5	148.0	39.5	660.6	315.1	345.5
700 EDP non-staff costs	4,164.1	-	4,164.1	-	-	-	4,164.1	-	4,164.1
800 Technical cooperation	13,676.7	-	13,676.7	-	-	-	13,676.7	-	13,676.7
900 Other expenses	20,611.0	2.1	20,608.9	2,180.4	5,848.6	(3,668.2)	22,791.4	5,850.7	16,940.7
Miscellaneous income	-	1,508.3	(1,508.3)	-	-	-	-	1,508.3	(1,508.3)
TOTAL	145,898.6	16,357.9	129,540.7	19,601.7	19,601.7	-	165,500.3	35,959.6	129,540.7

^a Approved in decision GC.7/Dec.16.

^b Reference PBC.14/6-IDB.20/7, approved in decision GC.8/Dec.12.

Table 3

Revisions to decision GC.7/Dec.16 (adjustment formula)

Major programme	GC.7/Dec.16, paragraph (c)		Adjustments (GC.8/Dec.12)		Revised budget estimates 1998-1999	
	(a)		(b)		(c)=(a+b)	
	US dollars	Austrian schillings	US dollars	Austrian schillings	US dollars	Austrian schillings
	(1)	(2)	(3)	(4)	(5)	(6)
Appropriations						
A. Policy-making Organs	551,100 +	(79,062,200 /R)	(44,600) +	((7,091,800) /R)	506,500 +	(71,970,400 /R)
B. General Management	2,592,700 +	(101,668,900 /R)	(220,000) +	(15,495,300 /R)	2,372,700 +	(117,164,200 /R)
C. Strengthening of Industrial Capacities	4,687,400 +	(481,558,180 /R)	115,400 +	((14,927,780) /R)	4,802,800 +	(466,630,400 /R)
D. Cleaner and Sustainable Industrial Development	1,541,900 +	(166,062,840 /R)	84,900 +	((4,233,640) /R)	1,626,800 +	(161,829,200 /R)
E. Regional Programme Management	12,563,500 +	(100,364,600 /R)	18,900 +	((1,907,900) /R)	12,582,400 +	(98,456,700 /R)
F. Technical Cooperation Management	658,000 +	(89,133,850 /R)	(13,100) +	((1,710,550) /R)	644,900 +	(87,423,300 /R)
G. Administration	2,612,500 +	(539,069,436 /R)	353,900 +	(263,428,010 /R)	2,966,400 +	(802,497,446 /R)
Subtotal appropriations	25,207,100 +	(1,556,920,006 /R)	295,400 +	(249,051,640 /R)	25,502,500 +	(1,805,971,646 /R)
Estimated income						
E. Regional Programme Management	895,500 +	(- /R)	- +	(- /R)	895,500 +	(- /R)
G. Administration	294,000 +	(176,215,120 /R)	295,400 +	(249,051,640 /R)	589,400 +	(425,266,760 /R)
Miscellaneous	662,100 +	(10,915,800 /R)	- +	(- /R)	662,100 +	(10,915,800 /R)
Subtotal estimated income	1,851,600 +	(187,130,920 /R)	295,400 +	(249,051,640 /R)	2,147,000 +	(436,182,560 /R)
TOTAL NET REQUIREMENTS	23,355,500 +	(1,369,789,086 /R)	- +	(- /R)	23,355,500 +	(1,369,789,086 /R)

Note 1: The net requirements shown above assume a ratio of 18 per cent in US dollars and 82 per cent in Austrian schillings at an exchange rate of US\$ 1 = ATS 12.90.

Note 2: R represents the average United Nations exchange rate for Austrian schillings to US dollars experienced during 1998-1999, i.e. US\$ 1 = ATS 12.6335.

Table 4
Regular budget
Financial performance report for 1998-1999 by major programme
(In thousands of US\$)

Major programme	Revised budget 1998-1999 ^a at US\$ 1 = ATS 12.90	Revised budget 1998-1999 at US\$ 1 = ATS 12.6335	Actual expenditure/ income 1/1/98 to 31/12/99	Unutilized balance at 31/12/99 (d)=(b-c)	Percentage (e)
<u>Expenditure</u>	(a)	(b)	(c)	(d)	(e)
A. Policy-making Organs	6,085.6	6,203.3	5,802.7	400.6	6.5
B. General Management	11,455.2	11,646.8	11,544.6	102.2	0.9
C. Strengthening of Industrial Capacities	40,975.7	41,738.8	37,198.7	4,540.1	10.9
D. Cleaner and Sustainable Industrial Development	14,171.7	14,436.3	11,441.8	2,994.5	20.7
E. Regional Programme Management	20,214.7	20,375.7	18,384.6	1,991.1	9.8
F. Technical Cooperation Management	7,421.9	7,564.9	7,846.7	(281.8)	(3.7)
G. Administration	65,175.5	66,487.7	58,834.3	7,653.4	11.5
Total expenditure	165,500.3	168,453.5	151,053.4	17,400.1	10.3
<u>Income</u>					
E. Regional Programme Management	895.5	895.5	485.3	410.2	45.8
G. Administration	33,555.8	34,251.3	27,868.4	6,382.9	18.6
Miscellaneous	1,508.3	1,526.1	1,857.8	(331.7)	(21.7)
Total income	35,959.6	36,672.9	30,211.5	6,461.4	17.6
TOTAL	129,540.7	131,780.6	120,841.9	10,938.7	8.3

^a See table 1.

Table 5
Regular budget
Financial performance report for 1998-1999 by major object of expenditure
(In thousands of US\$)

Major object of expenditure	Revised budget 1998-1999 ^a at US\$ 1 = ATS 12.90	Revised budget 1998-1999 at US\$ 1 = ATS 12.6335	Actual expenditure/ income 1/1/98 to 31/12/99	Unutilized balance at 31/12/99 (d)=(b-c)	Percentage
	(a)	(b)	(c)	(d)	(e)
<u>Expenditure</u>					
100 Staff costs	92,312.4	93,911.5	92,439.0	1,472.5	1.6
200 Official travel	2,196.7	2,226.6	1,419.6	807.0	36.2
300 Contractual services	694.7	707.1	618.8	88.3	12.5
400 General operating costs	28,109.1	28,634.5	25,808.1	2,826.4	9.9
500 Supplies and materials	894.6	913.2	596.3	316.9	34.7
600 Acquisition of furniture and equipment	660.6	674.5	600.5	74.0	11.0
700 EDP non-staff costs	4,164.1	4,248.3	4,006.8	241.5	5.7
800 Technical cooperation	13,676.7	13,920.7	11,820.5	2,100.2	15.1
900 Other expenses	22,791.4	23,217.1	13,743.8	9,473.3	40.8
Total expenditure	165,500.3	168,453.5	151,053.4	17,400.1	10.3
<u>Income</u>					
100 Staff costs	9,361.6	9,543.3	8,861.6	681.7	7.1
200 Official travel	6.8	6.9		6.9	100.0
400 General operating costs	18,722.4	19,101.9	17,208.7	1,893.2	9.9
500 Supplies and materials	194.7	198.9	200.0	(1.1)	(0.6)
600 Acquisition of furniture and equipment	315.1	321.7	435.9	(114.2)	(35.5)
900 Other expenses	5,850.7	5,974.1	1,647.5	4,326.6	72.4
Miscellaneous	1,508.3	1,526.1	1,857.8	(331.7)	(21.7)
Total income	35,959.6	36,672.9	30,211.5	6,461.4	17.6
TOTAL	129,540.7	131,780.6	120,841.9	10,938.7	8.3

^a See table 1.

Table 6
Operational budget
Financial performance report for 1998-1999 by major programme
(In thousands of US\$)

Major programme	Approved budget estimates 1998-1999 at US\$ 1 = ATS 12.90 (G.C.7/Dec.16) (a)	Actual expenditure/income 1/1/98 to 31/12/99 (b)	Variance (c)=(a-b)
<u>Expenditure</u>			
A. Policy-making Organs	-	-	-
B. General Management	241.6	846.4	(604.8)
C. Strengthening of Industrial Capacities	9,891.1	7,572.7	2,318.4
D. Cleaner and Sustainable Industrial Development	4,559.1	2,806.8	1,752.3
E. Regional Programme Management	6,781.8	5,796.4	985.4
F. Technical Cooperation Management	4,154.2	4,135.9	18.3
G. Administration	2,897.5	3,264.3	(366.8)
Total expenditure	28,525.3	24,422.5	4,102.8
<u>Income</u>			
E. Regional Programme Management	605.1	180.6	424.5
Miscellaneous	430.0	270.7	159.3
Total income	1,035.1	451.3	583.8
TOTAL	27,490.2	23,971.2	3,519.0

Table 7
Operational budget
Financial performance report for 1998-1999 by major object of expenditure
(In thousands of US\$)

Major object of expenditure	Approved budget estimates 1998-1999 at US\$ 1 = ATS 12.90 (G.C.7/Dec.16) (a)	Actual expenditure/income 1/1/98 to 31/12/99 (b)	Variance (c)=(a-b)
<u>Expenditure</u>			
100 Staff costs	26,033.3	22,911.8	3,121.5
200 Official travel	470.2	45.1	425.1
300 Contractual services	-	168.0	(168.0)
400 General operating costs	2,021.8	1,297.6	724.2
500 Supplies and materials	-	-	-
600 Acquisition of furniture and equipment	-	-	-
700 EDP non-staff costs	-	-	-
800 Technical cooperation	-	-	-
900 Other expenses	-	-	-
Total expenditure	28,525.3	24,422.5	4,102.8
<u>Income</u>			
100 Staff costs	120.3	-	-
400 General operating costs	484.8	-	-
Subtotal - (100+400)	605.1	180.6	424.5
Miscellaneous	430.0	270.7	159.3
Total income	1,035.1	451.3	583.8
TOTAL	27,490.2	23,971.2	3,519.0



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REPORT OF THE EXTERNAL AUDITOR, FINANCIAL PERFORMANCE REPORT AND PROGRAMME PERFORMANCE REPORT FOR THE BIENNIUM 1998-1999

Comments of the Director-General on the report of the External Auditor

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Introduction

1. The present document provides the Director-General's comments on the report of the External Auditor covering the period 1998-1999 (PBC.16/4-IDB.23/3).

I. GENERAL COMMENTS

2. The Director-General appreciates the report, which contains useful analyses, observations and recommendations. He also welcomes the new format, which facilitates reading. The Director-General acknowledges that the audit function is based on critical assessment, as implied in paragraph 4 of document IDB.23/3-PBC.16/4, and is grateful to the External Auditor and her team for their constructive efforts.

3. In general, the Director-General suggests that the report be considered against the background of the extremely difficult circumstances under which he had to manage the Organization during the reporting period, as well as the improvements achieved despite those difficulties. The report makes no mention of the implementation of the staff separation programme at the beginning of 1998, which was a particularly significant challenge. While the General Conference requested the Director-General to implement the staff reduction programme, Member States did not provide the requisite funds. The Director-General swiftly implemented the programme with disbursements of only \$10.9 million, or \$5.9 million less than the \$15.9 million originally estimated.

4. There were also numerous improvements in the administrative and financial management of the Organization, as acknowledged on several occasions by Member States, including the eighth session of the General Conference. Financial management and control, *inter alia*, notably improved during the reporting period. Despite delayed and unpredictable payment of assessed contributions, the financial situation of UNIDO has been stabilized. Similarly, as shown in paragraphs 5 to 7 below, Management Information Service (now Information Technology and Knowledge Management Section) was turned around during 1999, and there is a consensus that a new era has started for information technology in UNIDO.

II. SPECIFIC COMMENTS

Management Information System (paras. 78-80)¹

5. The Director-General does not share the conclusions of the audit report on MIS. As regards the year 2000 (Y2K) problems, it should be pointed out that

UNIDO has many electronic data-processing systems on a partition of the IAEA mainframe computer, and accounting systems are only a part of those. An amount of \$750,000 was spent to make all UNIDO computer systems Y2K compliant, and not only the accounting systems. UNIDO systems on the IAEA mainframe are worth several million dollars. Considering that the transition of all systems to a modern client-server system is a multi-year, multi-million dollar project that entails considerable risks, an investment of \$750,000 to gain time was not a waste of resources. Moreover, the Y2K work enabled UNIDO to select the best solution to replace its entire computer systems in a calm, objective and professional manner.

6. Concerning the audit opinion that UNIDO should have acquired off-the-shelf programmes early in 1998, it must be pointed out that the Director-General at that time had to deal not only with MIS issues but also with many other pressing and critical transformation matters—including a major staff reduction exercise—within extremely limited financial and human resources. The large amount of funds required to modernize the archaic systems was simply not available in 1998. A further dimension results from the insufficient management attention to MIS in the past decade, with the consequence that the accumulated MIS-related problems were enormous. Solutions required a strategic, in-depth analysis, including a review of courses of actions taken by IAEA and other United Nations organizations (such as IMIS—the Integrated Management Information System of the United Nations). The Cross-Organizational Team on MIS (COT) was created in early 1998 precisely for those reasons.

7. The COT recommendations were issued in June 1998, and most had been implemented by early 2000 despite meager resources, tremendous time pressure and other priority requirements (such as the need to address Y2K issues). These accomplishments were possible because of strong management commitment and the dedication of MIS staff. A new era for UNIDO MIS has started at last, as illustrated by the installation of a modern IT network, new PCs, and particularly the introduction of the new financial systems based on a commercial package adopted by IAEA, with which organization regular contact is maintained. The Director-General is convinced that delaying the implementation of the new financial systems until early 2000 was the appropriate course of action.

Reconstruction of Gate 1 of the Vienna International Centre (paras. 81-88)

8. The costs for modification of Gate 1 were included in the relevant budget submissions for Buildings Management for the 1996-1997 biennium. By approving the UNIDO budgets (which included Gate 1) the Member States approved the budgetary provisions

¹ Chapter titles refer to those in the report of the External Auditor (IDB.23/3-PBC.16/4).

related to the subject project. It is neither practical nor economical to include details of all projects and activities of the Organization in the programme and budget document.

9. Having said that, the Director-General recognizes that the manner in which the Gate 1 reconstruction was handled has been less than satisfactory. It should be noted that when he became aware of the situation in early 1998, work was in progress and the firm commitment that had been made to other VIC-based

organizations in 1997 prevented any reversal of the decision. In recognition of the problems, the Director-General has taken measures to prevent a recurrence of these incidents, including the system of decision-making pertaining to activities under joint and common VIC services.

III. ACTION REQUIRED OF THE COMMITTEE

10. The Committee may wish to take note of the information provided in the present document.



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REPORT OF THE EXTERNAL AUDITOR, FINANCIAL PERFORMANCE REPORT AND PROGRAMME PERFORMANCE REPORT FOR THE BIENNIUM 1998-1999

Comments of the Director-General on the report of the External Auditor

Corrigendum

The last sentence of paragraph 3 should read as follows:

The Director-General swiftly implemented the programme with disbursements of only \$10 million, or \$5.9 million less than the \$15.9 million originally estimated.

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TRANSITION TO A SINGLE-CURRENCY SYSTEM

Changes in the definition of major objects of expenditure

Note by the Director-General

Provides information on the new definition of major objects of expenditure, which will first be applied to the programme and budgets, 2002-2003.

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Introduction

1. At the meeting on 2 June 2000 of the inter-sessional working group on proposed amendments to the financial regulations, discussion took place concerning difficulties related to the definition of major objects of expenditure. The Secretariat announced on that occasion that a document would be issued on the subject to the Programme and Budget Committee at its sixteenth session.

2. Financial regulation 3.4 stipulates that UNIDO's regular budget shall be also presented by major objects of expenditure. The definition currently in use for major objects of expenditure originates from a standard defined by the United Nations more than 30 years ago, which no longer meets operational requirements.

3. A typical problem with the current system is the provision of printing funds both under contractual services and other expenditures, depending on whether the printing will take place internally or externally. However, it is almost impossible to predict during the budget preparation the ratio between external and internal printing. Under the present system, during the biennium there is no possibility to adjust to the actual needs, despite the fact that sufficient printing funds are available under various major objects of expenditure.

I. PREVIOUS APPROACH

4. The programme and budgets, 2000-2001 (as well as previous budgets), were presented according to the nine major objects of expenditure below:

- (100) Staff costs
- (200) Official travel
- (300) Contractual services
- (400) General operating costs
- (500) Supplies and materials
- (600) Acquisition of furniture and equipment
- (700) EDP non-staff costs
- (800) Technical cooperation and IDDA
- (900) Other expenditures

5. The grouping has several shortcomings. It features three categories (contractual services, supplies and materials, acquisition of furniture and equipment) that represent less than 0.4 per cent each of the combined gross regular and operational budgets of the Organization for items that can be characterized as operating cost items. Furthermore, the third largest category (900) lumps together various items under the broad title "other expenditures", representing 7.1 per cent of the gross budgets.

II. PROGRAMME AND BUDGETS, 2002-2003

6. In connection with the introduction of the new financial system, which requires the redesign of the charts of accounts and the forthcoming introduction of a single-currency system of budgeting, which also necessitates the revision of objects of expenditure, the Director-General intends to introduce a new grouping of the objects of expenditure for the presentation of the budget proposal for the biennium 2002-2003. According to financial regulation 10.2(a), the Director-General shall establish such accounts and maintain such accounting records as are necessary, giving due consideration to the United Nations accounting standards.

7. Thus, the new major objects of expenditure will be:

- (a) Personnel costs;
- (b) Travel on official business;
- (c) Operating costs;
- (d) Information technology and communication;
- (e) Technical cooperation and IDDA supplementary activities.

8. The most significant changes in the structure are the following. The previous smallest three categories (contractual services, supplies and materials, acquisition of furniture and equipment) were merged into the operating costs item to eliminate major groups that together represented only one per cent of the budgets. The items under the category "other expenditures" were redistributed into those categories into which they belong by their nature. For instance, contributions to the joint printing service has been grouped with other printing resources under operating costs; contributions to the joint language training has been moved under personnel costs, where all other training provisions have been budgeted for. Furthermore, communications-related costs were grouped with information technology to reflect the technological developments in this area.

9. The attached table shows a tabular comparison between the current and new system by presenting a breakdown of the combined regular and operational budgets approved for the biennium 2000-2001.

III. ACTION REQUIRED OF THE COMMITTEE

10. The Committee may wish to take note of the information presented in the present document, including the redefinition of major objects of expenditure, which will be applied for the first time to the programme and budget proposals for the 2002-2003 biennium.

Approved expenditure and income (regular and operational budgets) by major object of expenditure for 2000-2001
(In thousands of US\$1 = ATS 12.90)

Major object of expenditure (current)	2000-2001 approved budget (US\$)	% over total	Major object of expenditure (new)	2000-2001 approved budget (US\$)	% over total
<u>Expenditure</u>			<u>Expenditure</u>		
100 Staff costs	124,724.2	63.5	1000 Personnel costs	125,402.2	63.8
200 Official travel	2,430.5	1.2	2000 Travel on official business	2,430.5	1.2
300 Contractual services	520.1	0.3	3000 Operating costs	48,084.0	24.5
400 General operating expenses	30,351.9	15.4	4000 Information technology and communication (non-staff costs)	6,773.2	3.4
500 Supplies and materials	785.9	0.4	5000 Technical cooperation and IDDA supplementary activities	13,875.6	7.1
600 Acquisition of furniture and equipment	623.1	0.3			
700 EDP non-staff costs	4,150.7	2.1			
800 Technical cooperation and IDDA	13,875.6	7.1			
900 Other expenditures	19,103.5	9.7			
Total expenditure	196,565.5	100.0	Total expenditure	196,565.5	100.0
<u>Income</u>			<u>Income</u>		
100 Staff costs	9,651.9	27.3	1000 Personnel costs	9,651.9	27.3
200 Official travel	7.1	0.0	2000 Travel on official business	7.1	0.0
300 Contractual services	0.0	0.0	3000 Operating costs	24,152.1	68.2
400 General operating expenses	19,398.8	54.8	4000 Information technology and communication (non-staff costs)	0.0	0.0
500 Supplies and materials	206.5	0.6	5000 Technical cooperation and IDDA supplementary activities	0.0	0.0
600 Acquisition of furniture and equipment	315.2	0.9			
700 EDP non-staff costs	0.0	0.0			
800 Technical cooperation and IDDA	0.0	0.0			
900 Other expenditures	4,231.6	12.0			
Miscellaneous income	1,588.5	4.5	Miscellaneous income	1,588.5	4.5
Total income	35,399.6	100.0	Total income	35,399.6	100.0
Total net approved	161,165.9		Total net approved	161,165.9	



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FINANCIAL REGULATIONS

Intersessional working group on proposed amendments to the financial regulations

Report of the Chairperson, H.E. Mrs. I. Freudenschuss-Reichl, Austria

Reports on the work of the Intersessional working group on its deliberations concerning amendments to the financial regulations in 2000.

1. The sixteenth session of the Board, in its decision IDB.16/Dec.9, established an informal intersessional working group and charged it with the task of studying proposed amendments to the financial regulations; the group met for the first time in December 1996. The working group agreed on a set of revised financial regulations (3.4(a), 5.1(d), 5.2(b), 10.1(b), 10.2(a) and 10.2(c)). The revisions endorsed by the group were submitted through the thirteenth session of the Programme and Budget Committee to the eighteenth session of the Board (September 1997). The Board, in turn, forwarded the revised financial regulations to the seventh session of the General Conference (December 1997), which decided that those amendments should be applied. The Board, at its eighteenth session, also requested the intersessional working group to continue its examination of the financial regulations.

2. In compliance with the decision of the eighteenth session of the Board, the working group continued its work, under the chairmanship of H.E. Mrs. Freudenschuss-Reichl (Austria). Thus, the working group held four meetings, on 17 April, 2 June, 30 June and 1 September 2000. At the first meeting, the Secretariat made presentations and circulated a *Background paper on the revision of financial regulations*, dated 18 April 2000. In addition, a communication from the External Auditor dealing with the issues under discussion was distributed to permanent missions of UNIDO on 25 May 2000. At the second meeting a letter was circulated, dated 31 May 2000, from the Permanent Mission of Germany that contained a proposal related to financial regulations 4.2(b) and 4.2(c).

3. The Intersessional working group discussed ways and means to minimize the negative effects on the work

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of the Organization resulting from late payment of assessed contributions.

4. There was general agreement in the Intersessional working group that all possible efforts should be undertaken to speedily eliminate arrears, re-establish voting rights and arrive at a situation in which—as a matter of course—all UNIDO Member States pay their assessed contributions in full and on time. There was also agreement that the question of timely and full payment (which has an important bearing on the standing of the Organization) was beyond the mandate of the Intersessional working group, but should not be lost sight of.

5. In its discussions, the Intersessional working group has been guided by several objectives. These objectives include:

- Ensuring full utilization of the approved regular budget, in particular the regular programme of technical cooperation;
- Encouraging payment of assessed contributions in full and on time;
- Avoiding repeated suspension of financial regulations;
- Maintaining Member States' control over the budget;
- Eliminating unnecessary administrative procedures that diminish the efficiency of the Organization;
- Aiming at consistency with the situation in other international organizations.

6. The Intersessional working group has so far discussed three proposals—a special account for the Regular Programme of Technical Cooperation, a special account for Buildings Management, and a model building on experience within other organizations that would allow keeping the unutilized balances in the Organization—with a view of arriving at recommendations to be submitted to the Programme and Budget Committee.

7. The working group was briefed on the question of re-grouping major objects of expenditure and heard various views of Member States on the issue.

8. The Intersessional working group also discussed the desirability of increasing the level of the Working Capital Fund. The current situation—which provides coverage for approximately one month of the approved regular budget expenses—was found to be in general harmony with the relevant guidelines of the Joint Inspection Unit and the working group suggested no further action.

9. Concerning the issues enumerated in paragraph 6 above, Member States, while gratefully acknowledging the useful information already provided by the UNIDO Secretariat, have requested the Secretariat to provide additional information on technical issues and concurrently, Member States will continue a dialogue with capitals on the policy implications of possible solutions.

10. The Chairperson of the working group therefore submits the present interim report to the Programme and Budget Committee at its sixteenth session and—mindful that any change in the Financial Regulations of UNIDO would have to be adopted by the ninth session of the General Conference of UNIDO in December 2001—is prepared to continue its deliberations with a view to formulating concrete recommendations to the seventeenth session of the Committee (April 2001). That session would thus be in a position to forward its recommendations to the twenty-fourth session of the Industrial Development Board (June 2001), which would subsequently transmit those recommendations to the General Conference.

ACTION REQUIRED OF THE COMMITTEE

11. The Committee may wish to consider the adoption of the following draft decision:

“The Industrial Development Board:

“(a) Takes note of the interim report of the Chairperson of the Intersessional working group on proposed amendments to the financial regulations (PBC.16/10-IDB.23/8);

“(b) Encourages the Intersessional working group to continue its deliberations with a view to submitting proposed amendments to the financial regulations to the seventeenth session of the Programme and Budget Committee.”